

# Governance and Policies

## Preparatory Guidelines leading into Solvency II

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# Governance – Survey Results

Pillar 2	P2 - Governance	4.0
	P2 - Risk Management System (RMS)	3.6
	P2 - Own Risk and Solvency Assessment (ORSA)	2.7

	PRISM Rating: High & Medium-High	PRISM Rating: Medium-Low & Low
Systems of Governance	2014: Subject to all guidelines	2014: General requirements apply 2015: Key functions established & associated requirements apply

The “Key Functions” are Risk Management, Compliance (within Internal Controls), Internal Audit and Actuarial.

# CBI Preparatory Guidelines

## System of Governance

52 Guidelines

General  
Governance  
Requirements

Fit & Proper

Risk  
Management

Prudent  
Person  
Principle

Own Funds  
Requirements

Internal  
Controls

Internal Audit  
Function

Actuarial  
Function

Outsourcing

Group  
Governance

PRISM Med-Low and Low in 2015

# List of Policies

- General Governance
  - Organisational structure with clear allocation and segregation of duties
  - Conflict of Interest Procedures
  - Business Continuity Plan
  - Remuneration Policy
- Risk Management Policy
  - Underwriting and reserving
  - Asset-liability management
  - Investment, in particular derivatives and similar commitments
  - Liquidity and concentration risk management
  - Operational risk management
  - Reinsurance and other risk-mitigation techniques
- Fit & Proper Policy (and procedures)

# List of Policies (continued)

- Internal Control Policy (and framework)
  - Compliance Policy
- Internal Audit Policy (and plan)
- Outsourcing Policy
  - Process for determining and documenting whether an outsourced function is a critical or important function
  - Procedure for choosing service provider
  - Written outsourcing agreements (including intra-group ones)
- Capital Management Policy (and medium term capital management plan)
- ORSA Policy
- Actuarial Function

# A template for all policies (Guideline 9)

“The undertaking should align all policies required as part of the system of governance with each other and with its business strategy”

Goals for policy

Tasks and  
people or role  
responsible

Processes and  
reporting  
procedures

Obligation to  
inform key  
functions

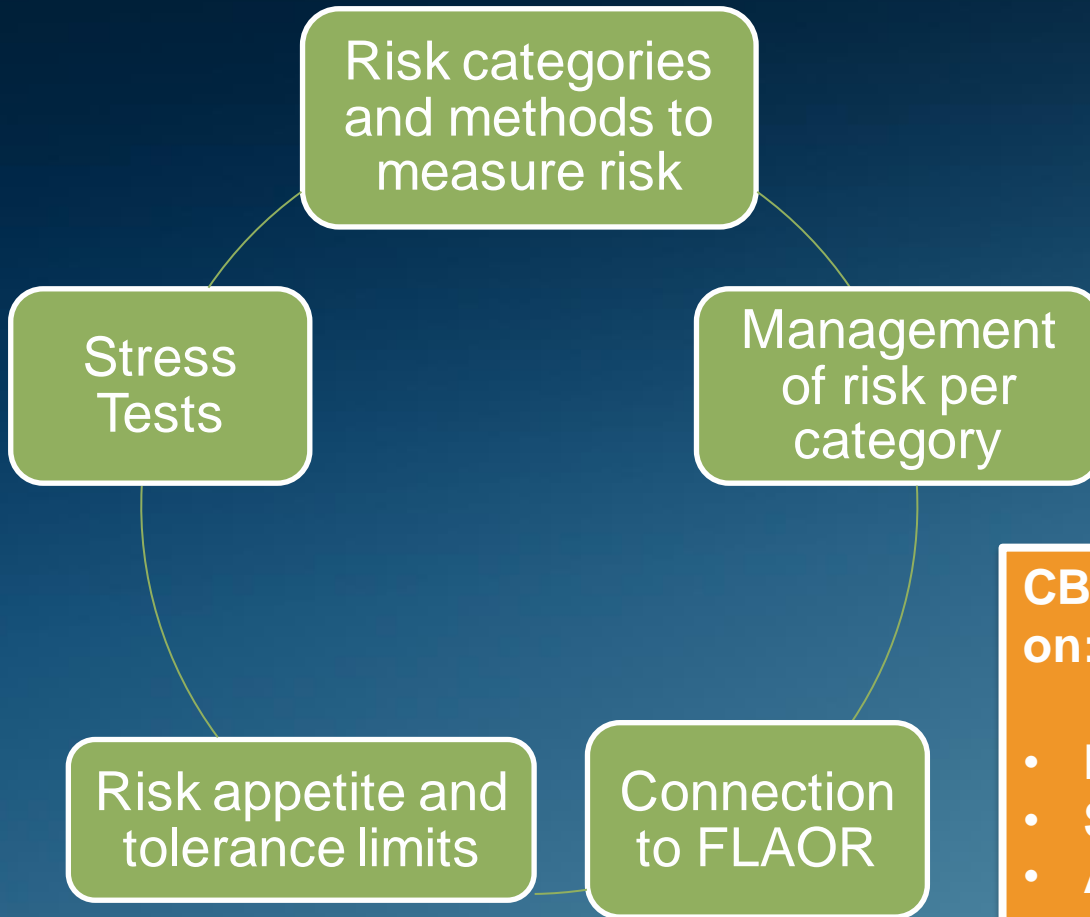
If key function -  
position of  
function, rights  
and powers

# 1. Fit & Proper

- Policy on Fit & Proper (G11)
- Ireland already has a robust Fitness & Probity regime in place

CBI readiness survey asks if F&P policy exists.

## 2. Risk Management Policy (G13)



**CBI Survey asks for progress on:**

- **Defining risk appetite**
- **Setting risk tolerance limits**
- **Approval of main risk management strategies and policies**



# Risk Management ‘sub-policies’

*“build an effective risk management system comprising strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report, on a continuous basis, the risks, at an individual and at an aggregated level, to which they are or could be exposed, and their interdependencies”*

Underwriting  
and Reserving  
G15

Risk Mitigation  
Techniques  
G18

Investment Risk  
G20

Operational  
Risk  
G16

Asset Liability  
Management  
G19

Liquidity Risk  
G21

# 3. Prudent Person Principle

- Covers investment risk management (G22 to G27)
- Covers all assets (including unit-linked) – per CBI Q&A document
- Procedures required in line with investment risk management policy
  - Must develop own set of key risk indicators
  - Assessment of non-routine investment activities
  - Controls on unlisted assets
  - Monitoring any use of derivatives

**CBI readiness survey asks for progress under 4 headings from above.**

## 4. Own Fund requirements

- Capital Management Policy
  - Tiers of capital
  - Dividends
- Medium-term Capital Management Plan
  - Identify any new capital needs
  - Application of dividend policy

CBI readiness survey asks for progress on medium-term CM policy.

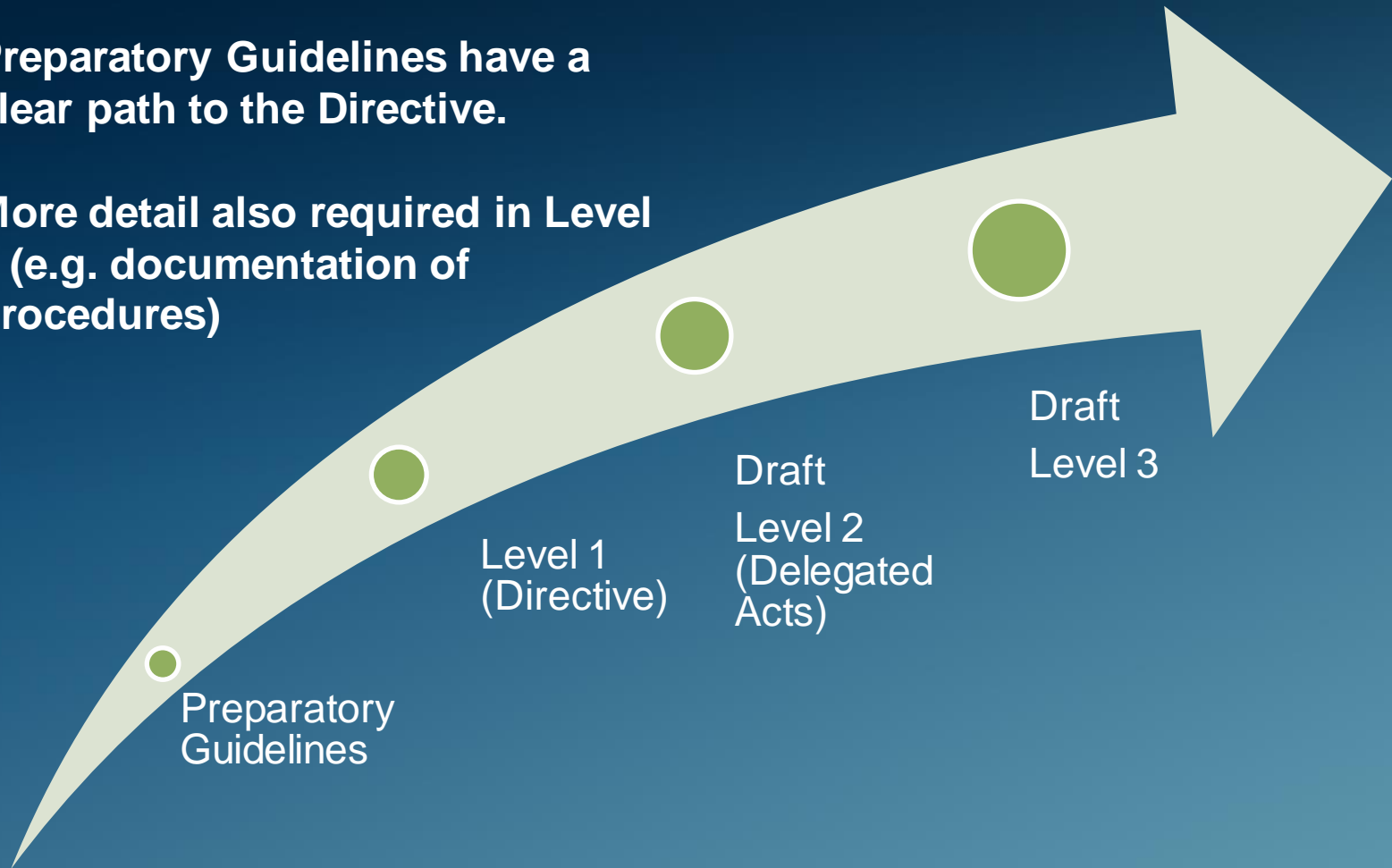
# The rest ...

- Internal Controls (including Compliance)
  - Compliance Policy (and plan)
  - Administrative and accounting (including valuation) procedures
- Internal Audit Function (including audit plan)
- Outsourcing
  - Critical and/or important outsourcing identified
  - Outsourced underwriting
  - Intra-group outsourcing
  - Need for a written policy
- Section III of Guidelines covers Group governance (not covered today)

# Path to Solvency II

Preparatory Guidelines have a clear path to the Directive.

More detail also required in Level 2 (e.g. documentation of procedures)



# Summary

- The Preparatory Guidelines give a clear path to Solvency II for the list of required policies
- Your existing “policies” need to be revised for Solvency II
  - Solvency II is quite prescriptive on headings to be covered
  - You need more policies (e.g. underwriting and reserving policy)
  - You need to start thinking of risk tolerances and risk appetite in the new Solvency II “currency”
- Watch out for additional documentation for procedures and processes from Level 2 in addition to written policies from Level 1 (the Directive)